

C A L I F O R N I A

Dairy



Statistics & Trends
2003

Mid-Year Review

The Big Picture

The first six months of 2003 for the California dairy industry have continued the overall trend of increasing milk production and total number of cows, but at the same time, experiencing the lowest prices paid for market milk since the late 1970's. These low farm prices continue to reflect the imbalance between an overabundant milk supply and commercial demand for milk and dairy products nationwide. For three of the first six months of 2003, California recorded milk production over three billion pounds and compared to the first six months of 2002, California milk production is up 2.6 percent. For the U.S. overall, for the second quarter of 2003 compared to 2002, milk production is down 0.5 percent, cow numbers have decreased by 19,000, and average production per cow is down 11 pounds per cow, signaling a possible turnaround in the growth trends of 2002 and early 2003. For the third quarter of 2003, compared to 2002, USDA projects that U.S. production will be down 0.2 percent.

California Counties

The bulk of milk produced in California continues to be concentrated in just a handful of counties. For January-June 2003, Tulare, Merced, Stanislaus, San Bernardino, and Kings counties accounted for two-thirds of the milk produced in California and 14 percent of the nation's total milk production. If Tulare County were a state, it would rank as the fourth largest milk-producing state in the country (last year it would have ranked fifth).

Dairy Products

California continues to lead the nation in the production of market milk, butter, and nonfat dry milk, producing an estimated 21, 27, and 47 percent, respectively, of the nation's total production. As in 2002, this year continues the steady growth of cheese production with California producing 21 percent of the nation's total cheese. If the current trend in cheese production continues, California could produce a record 1.8 billion pounds of total cheese by year-end, a 3.7 percent increase over last year's record 1.7 billion pounds. The year 2002 recorded an increase of 11.2 percent in butter production, however the first six months of this

year have shown overall butter production to be down 1.5 percent from the same period last year. Nonfat dry milk production continues a steady decline in production for the first six months of 2003, with production down 1.8 percent compared to the same period last year.

When compared to the same period in 2002, utilization of milk in California for the first six months of this year grew 2.2 percent. The breakdown of the utilization on a total solids basis was as follows:

- Class 1 fluid dairy products increased 0.6 percent;
- Class 2, soft dairy products, decreased 10.3 percent;
- Class 3, frozen dairy products, decreased 3.6 percent;
- Class 4a, butter and powder, decreased 1.7 percent;
- Class 4b, cheese, increased 5.6 percent.

Class 4a and 4b products accounted for 74 percent of all California dairy products for January-June 2003 on a total solids basis.

Milk Prices

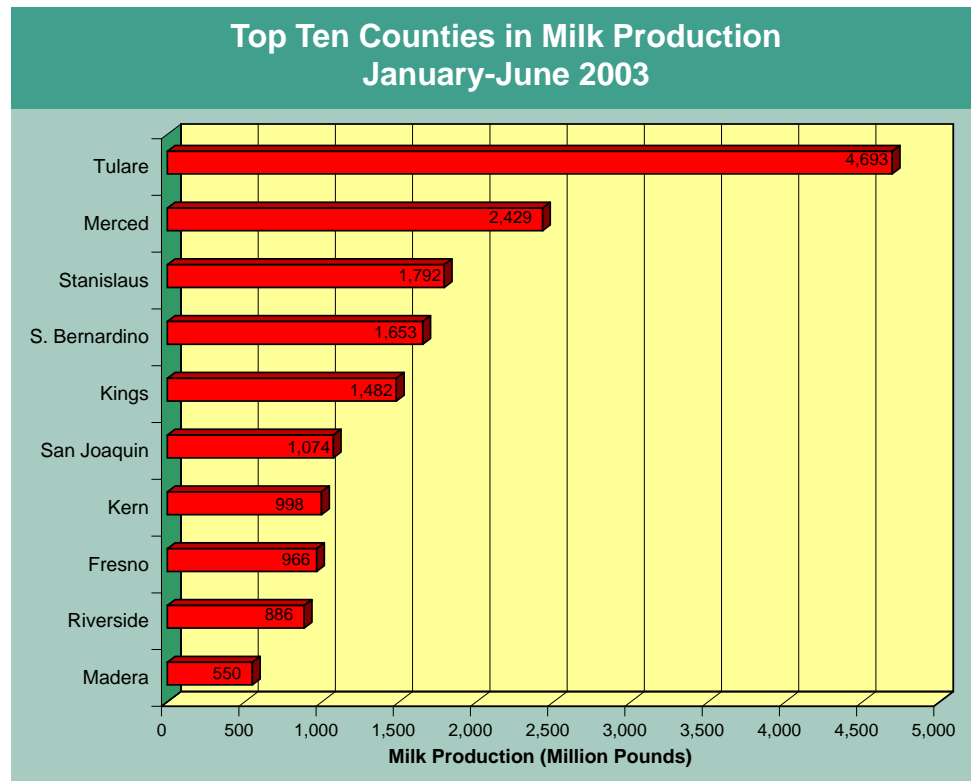
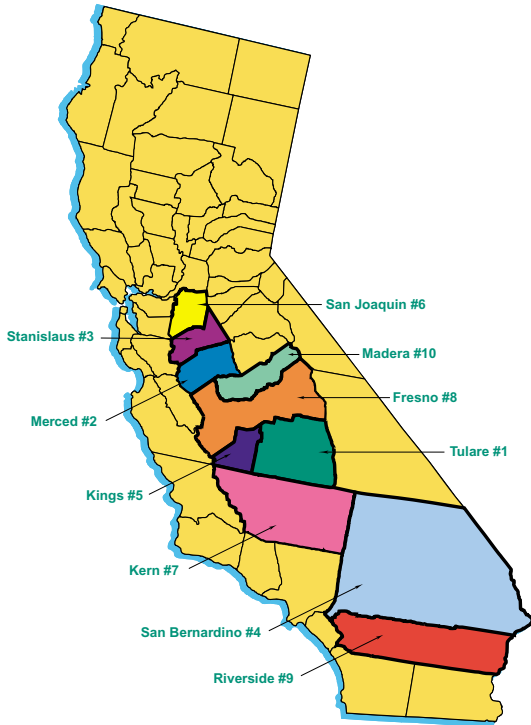
For the first six months of 2003, low milk prices dominated discussions in the dairy industry. January 2003 opened with Class 4a and 4b prices both below \$10 per hundredweight. With over three-fourths of California's milk production falling into these two classes, it was no surprise to see the overbase also below \$10 per hundredweight. Admittedly, this "snapshot" of milk prices is not that unusual; milk prices can and do move both up and down rapidly, reflecting the inherent instability in the dairy commodity markets that dictate milk prices. What so many in the industry found alarming was that the level of prices exemplified in January was not a "blip," but rather a continuing trend. As of the announcement of June milk prices, the price level situation experienced in January was unchanged. However, toward the end of June and into July, cheese prices began to surge upward. While butter prices have not moved as quickly, they also have increased during the last 4 weeks. How long these prices will continue to hold remains in question, but for now, the firmness of the butter and cheese markets are bringing much needed price relief to California dairies.



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CALIFORNIA MILK PRODUCTION



Production Notes, January-June 2003:

- The top ten counties accounted for 93% of California's total milk production and 19% of the nation's total milk production.
- For the top ten counties, in comparison to the same period in 2002, Kern County recorded the largest increase in milk production at 16.5%, and Riverside showed the greatest decrease at -18.5%.
- Compared to the same period last year, Riverside County dropped from ranking 6th in milk production to currently ranking 9th in milk production.
- The milk production of Tulare, Merced, Stanislaus, San Bernardino, and Kings counties account for 14% of total U.S. production.
- As indicated in the table below, on a monthly basis, California's total commercial milk production for June 2003 showed a decrease of -0.1 percent compared to June of 2002. This is the first time since September 1998 that California has shown a decrease in monthly production in comparison to the previous year.

California Commercial Production of Market and Manufacturing Milk January-June, 2002 vs. 2003 (In Thousand Pounds)

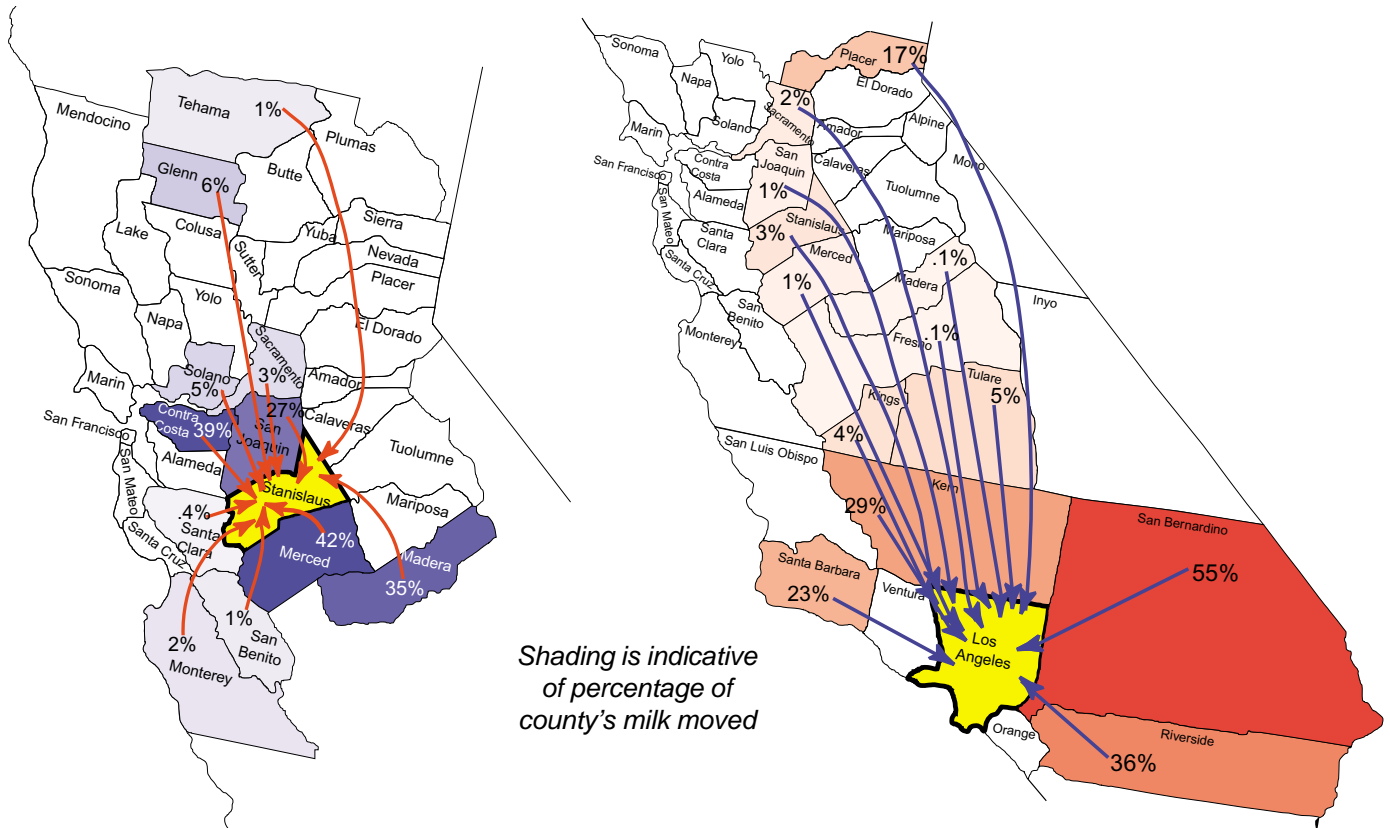
Month	Market Milk			Manufacturing Milk			Total Milk Production		
	2002	2003	% Change	2002	2003	% Change	2002	2003	% Change
January	2,809,011	2,950,990	5.1	22,974	22,299	-2.9	2,831,985	2,973,289	5.0
February	2,608,151	2,734,397	4.8	21,827	18,592	-14.8	2,629,978	2,752,989	4.7
March	2,956,143	3,067,479	3.8	25,504	25,387	-0.5	2,981,647	3,092,866	3.7
April	2,901,416	2,989,919	3.1	31,910	23,649	-25.9	2,933,326	3,013,568	2.7
May	3,040,541	3,049,076	0.3	29,291	25,685	-12.3	3,069,832	3,074,761	0.2
June	2,924,359	2,929,193	0.2	35,613	27,615	-22.5	2,959,972	2,956,808	-0.1
Jan-June Totals	17,239,621	17,721,054	2.8	167,119	143,227	-14.3	17,406,740	17,864,281	2.6

MILK MOVEMENT / NET MILK AVAILABLE

California Grade A Ranch-to-Plant Milk Movement, Over 300 Miles, May 2003

Shipping County	Receiving County	Product Pounds	Miles Travelled
Placer	Los Angeles	235,787	425-433
Sacramento	Los Angeles	399,655	390-410
Merced	Humboldt	5,183,688	350-400
San Joaquin	Los Angeles	53,585	352-360
Stanislaus	Humboldt	3,423,683	350-378
Stanislaus	Los Angeles	7,876,261	328-351
Merced	Los Angeles	5,567,192	312-330
Sacramento	Humboldt	494,278	309-321

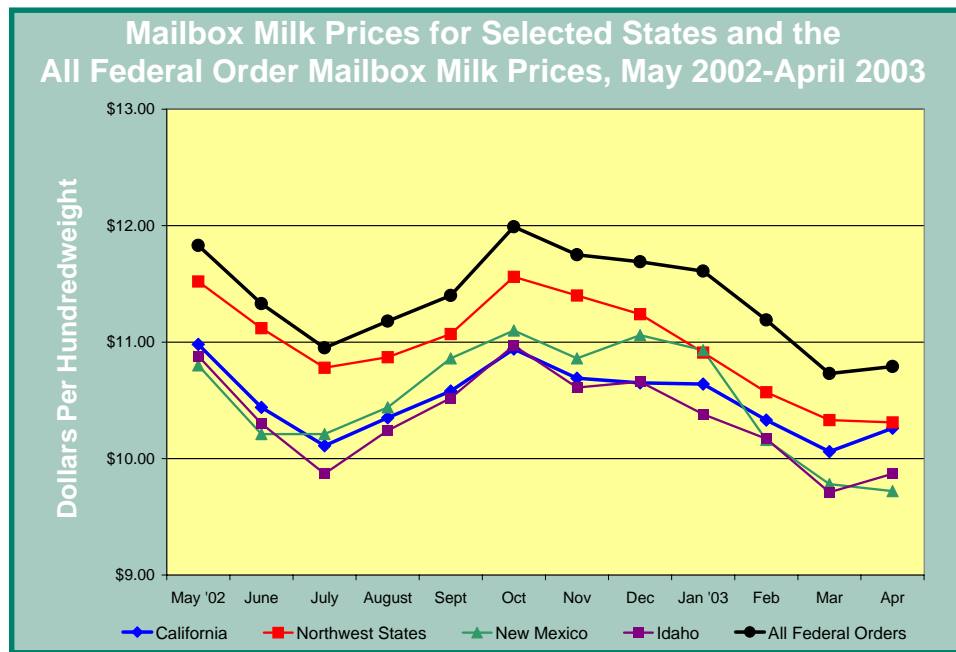
Grade A Milk Movement to Stanislaus and Los Angeles Counties, May 2003 Percentage Indicates Portion of County's Milk Flowing to Designated County



Net Milk Available in California California Commercial Milk Production, Production Entering, Production Leaving, Net Milk Available, in Thousand Pounds, January-June, 1999-2003

Year	Production Entering California	Production Leaving California	Net Milk Available	California Milk Production
1999	315,151	135,320	15,187,017	15,007,186
2000	291,683	146,187	16,338,032	16,192,536
2001	409,301	151,199	16,785,374	16,527,272
2002	601,210	202,270	17,805,679	17,406,739
2003	634,164	246,203	18,252,244	17,864,283

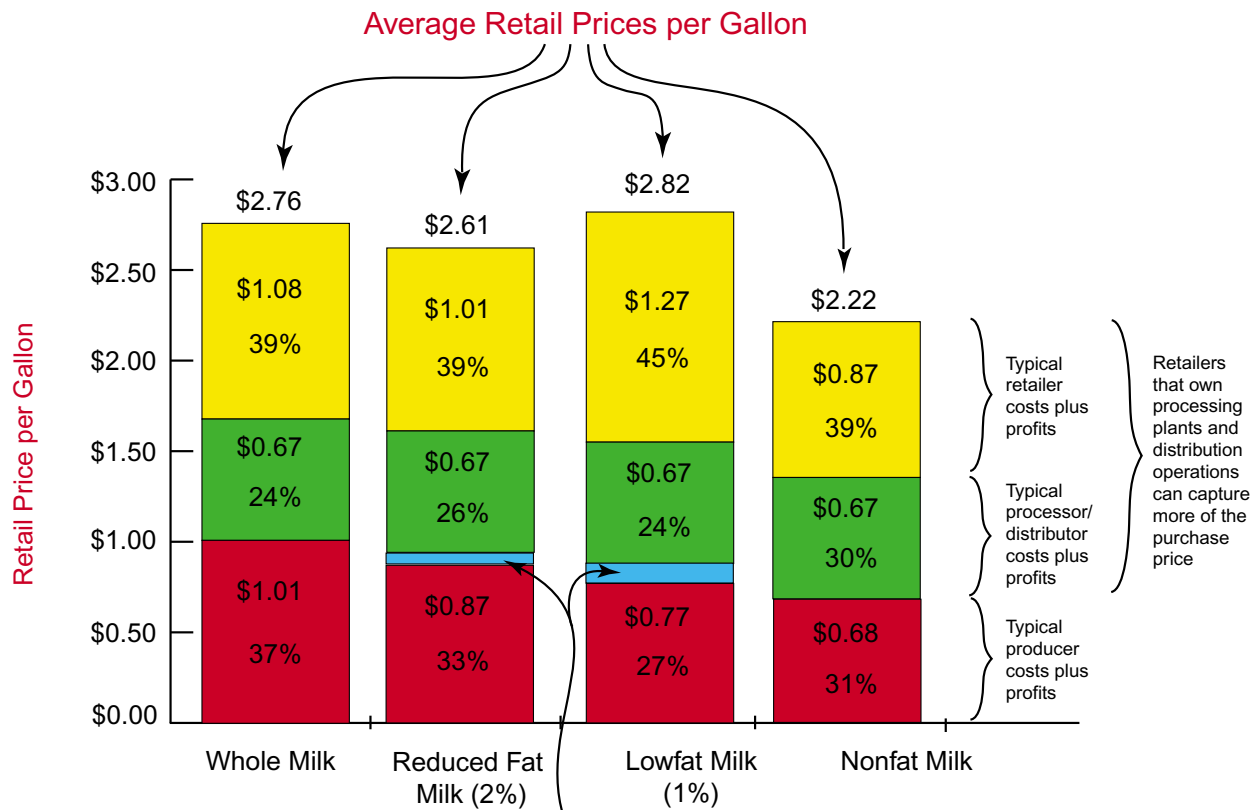
MAILBOX PRICES / CONSUMER MILK DOLLARS



Where Do Consumer's Milk Dollars Go?

Sacramento, May 2003

Under both California and federal milk marketing orders, minimum farmgate prices are regulated, but retail prices are not. Consumers often assume that most of their milk dollar goes to dairy farmers. The chart below shows that farmers receive less than 40 percent of the retail price of milk.

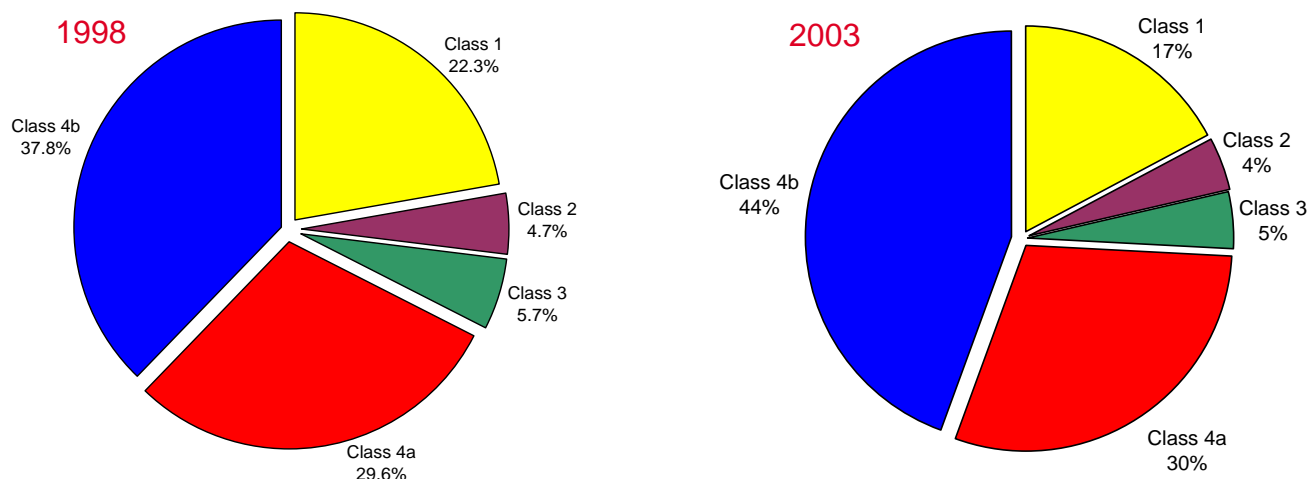


Costs to meet California's higher nutritional standards
(\$0.06 {2%} for reduced fat milk; \$0.11 {4%} for lowfat milk)

Retail price data for Sacramento for May 2003 obtained from A.C. Nielson Company

CALIFORNIA UTILIZATION / U. S. PRODUCTION

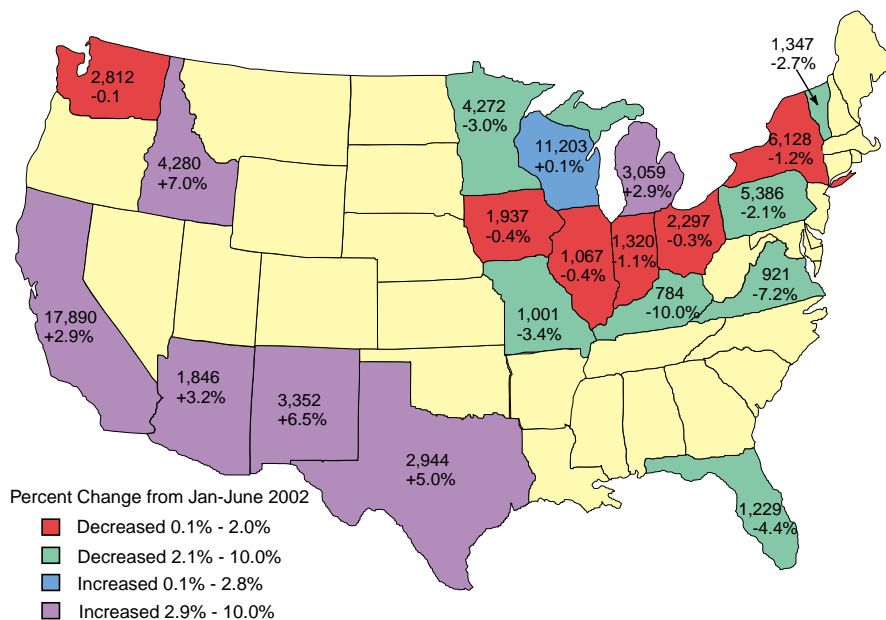
California Utilization of Market Milk by Class: January-June: 1998 and 2003



For the months January through June:

- Utilization of all market milk has increased 33% from 1998 to 2003,
- Class 1 representation of total milk on a total solids basis continues to decline, from 22.3% in 1998 to 17.3% in 2003, with April 2003 Class 1 utilization falling to 16.96%, and
- Utilization of Class 4b continues to increase, from 37.8% in 1998, climbing to 44.3% in 2003.

U.S. Milk Production, Top 20 Reporting States: January-June 2003 (Million Pounds) Percent Change from Same Period in 2002



- U.S. milk production in the top twenty reporting states for January-June 2003, showed an overall 0.9% increase compared to the same period in 2002.
- These top twenty reporting states produced 86.8% of the nation's total milk production.
- The strongest increase in production was recorded by Idaho (+7.0%).
- Thirteen of the top twenty producing states reported decreases in production with Kentucky showing the largest decrease (-10.0%).

5-Year Comparison: U.S. Production, January-June, 1998 vs. 2003

- Thirty-one states showed decreases in milk production over the 5-year period, with Arkansas recording the largest decrease in production (-44.0%).
- Ten states showed production increases over 10% with Kansas recording the largest increase (+60%).
- Overall U.S. production increased 7.8%.